

# Special Review of Roanoke Island Commission/Friends of Elizabeth II, Inc.



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Presentation to Joint General Government  
Appropriations Subcommittee

March 20, 2013



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## **Authorization**

- This review was authorized by the General Assembly under Session Law 2012-87 (Senate Bill 661)

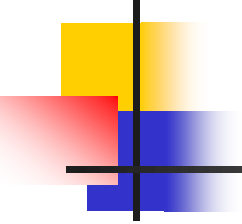


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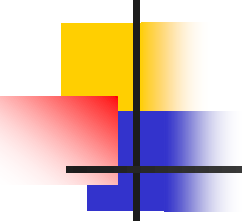
## **Relationships**

- The **Roanoke Island Commission** is within the Department of Cultural Resources for resource management, organizational and budgetary purposes.
- The Commission's primary funding source is state money appropriated by the General Assembly through Cultural Resources.

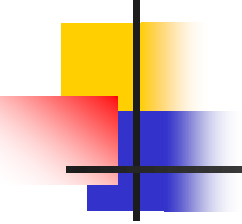
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- **Friends of the Elizabeth II, Inc.** (Friends) is a private, nonprofit corporation.
  - Originally founded for the construction and operation of a replica of a 16th Century sailing vessel, the Elizabeth II.
  - In May 2000, the Friends began to function as a nonprofit arm of the Commission.
  - Except for one \$27,470 grant from DENR in 2010, all state funds for the Friends flowed from Cultural Resources through the Commission.

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- Commission and Friends always closely connected.
  - Previous by-laws required board officers of Commission to serve on Friends board.
  - In November 2009, State Ethics Commission determined that the dual membership created a conflict of interest and requirement dropped.

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- Friends Museum Store employees managed state employees of Roanoke Island Festival Park.
  - Roanoke Island Festival Park Operations Manager held the same position for the Friends.
  - In 2010, staff members of the two organizations separated.

## **Session Law 2012-87**

- Directed the Office of State Auditor to address six issues and make recommendations
- We also addressed the issue of memorandums of agreement between the parties



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## **Question 1**

- What is the balance of funds received by the Friends of Elizabeth II, Inc., from the Roanoke Island Commission and other state entities?





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## **Conclusion**

- The Friends received \$8,313,684.53 in state funds from 1998 through 2010. Most were transfers from the Commission for projects at Roanoke Island Festival Park. (Table 1)



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## **Conclusion**

- The Friends maintained an overall cash balance of \$88,557.12 and an investment balance of \$7,262,672.93 as of December 31, 2012
- Determining amount of state money Friends hold is difficult since no separate accounting

# Medicaid Performance Audit Overview

## February 14, 2013



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### **Items of Note**

- Friends Treasurer in 2001 said that the Friends decided to invest the “transfers” once they became significant
- The Friends also invested funds from other sources
- The Operations Manager told investigators that the Friends’ intent was to use the transfers from the Commission to “build a nest egg”



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## **Recommendation 1**

- Cultural Resources and the Commission should continue to maintain adequate documentation to support all financial transactions in accordance with records retention policies. Minutes of Commission meetings should contain complete records of significant activities, including major financial decisions and results. The Friends should also account separately for any state funds received to enable monitoring of state funds received, spent and remaining.



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## **Question 2**

- How much interest was earned by the Friends and what is the rate of interest on funds received from the Roanoke Island Commission and other state entities?



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## **Conclusion**

- The Friends invested state money and other revenues together, so investment income cannot be tracked separately (Table 2)
- Friends' investment portfolio returns:
  - Computed average annual interest rate -7.81%
  - Imputed annualized geometric rate - 5.51%



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## **Recommendation 2**

- Because a significant portion of the invested funds derived from transfers from the Commission, the Friends should share summary information regarding its investments to the Commission annually. Friends should also separately account for and track state funds received and invested.



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## **Question 3**

- How did the Friends spend funds received from the Roanoke Island Commission or other state entities?



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### Conclusion

January 1, 1998, through December 31, 2011, spending:

- \$6,852,202 for program services (Table 3)
- \$361,904 for supporting services (Table 4)
- \$1,116,387 on capital projects
- \$1,535,446 for dormitory construction
- Total - **\$9,865,939**



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### **Recommendation 3**

- The Friends should continue to support Roanoke Island Festival Park as prescribed by law and carry out its stated mission from the articles of incorporation and by-laws. The Friends should also account separately for any state funds received to enable monitoring of state funds received, spent and remaining. For any future transfers to nonprofits of a similar nature, the General Assembly should clarify reporting requirements when the funds are appropriated.



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## **Question 4**

- Were the funds used for purposes for which they were transferred?



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## **Conclusion**

- The Friends used the funds from the Commission for the purposes identified. We did not identify any non-compliant expenditures.



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## **Recommendation 4**

- The Friends should continue to spend state funds in accordance with laws and regulations. The Friends should account separately for any state funds received to enable monitoring of state funds received, spent and remaining. For any future transfers to similarly situated nonprofit organizations, the General Assembly should specify how the funds should be used.



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## **Question 5**

- Were the funds properly transferred by state entities to the Friends in accordance with the law?



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## **Conclusion**

- The majority of the funds were properly transferred pursuant to N.C.G.S. §143B-131.2(b)(10) (Senate Bill 1366, 1997 Session).



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## **Conclusion**

- Two improper transfers from Roanoke Island Endowment Fund to the Friends made in 2001 and 2003. The Friends returned \$252,536.09 to the Commission in April 2012.





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## **Recommendation 5**

- The Commission should establish policies and procedures that outline methods for handling funds provided to and/or received from the Friends and any other nonprofit entity.



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## **Question 6**

- Was the use of funds properly reported in accordance with the law?

## **Conclusion**

- The Friends did not meet all of the reporting requirements in each year. (Table 5)



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## **Recommendation 6**

- Cultural Resource should continue to monitor all state funds provided to non-state entities to ensure that grantees properly provide reports as required by law. The General Assembly should clarify the reporting requirements for all state funds provided to nonprofits for which there are state appropriations without a grant agreement. State Budget and the grantor agencies should specify rules related to reporting requirements for these situations.



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## **Question 7**

- Were there Memorandums of Agreement or similar arrangements between the Commission and Friends?



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## **Conclusion**

- The Friends and the Commission are operating without a signed memorandum of agreement.



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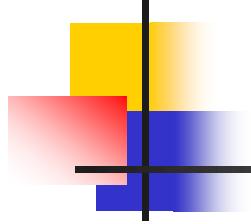
## **Recommendation 7**

- The Friends and the Commission should adopt a new memorandum of agreement. The agreement should outline the roles of each organization regarding the operation, management, and funding of activities at Roanoke Island Festival Park. The agreement should specify which operations should be directed by Commission/state employees and which should be handled by Friends staff or volunteers. The agreement should specify how funds are allocated and spent by the groups.

## **Thank you**

- General Assembly
- Department of Cultural Resources/Roanoke Island Commission and the Friends of the Elizabeth II, Inc.
- My staff for their thorough work





# Questions?